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Means of implementation for sustainable forest management

Chair's summary report of the meeting of the Open-ended Ad Hoc Expert Group to Develop Proposals for the Development of a Voluntary Global Financial Mechanism/Portfolio Approach/Forest Financing Framework

Summary

The United Nations Forum on Forests Open-ended Ad Hoc Expert Group to Develop Proposals for the Development of a Voluntary Global Financial Mechanism/Portfolio Approach/Forest Financing Framework met in Vienna from 10 to 14 November 2008. The meeting was attended by 128 participants from 62 member States, members of the Collaborative Partnership on Forests and other intergovernmental organizations, United Nations Forum on Forests-recognized regional organizations/processes, treaty body secretariats and major group organizations. The present report is to be submitted to the Forum at its eighth session for its consideration and appropriate action.

* E/CN.18/2009/1.

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I. Background

1. The Economic and Social Council, in its resolution 2007/40 of 17 October 2007 (para. 6), decided to develop and consider, with a view to its adoption at the eighth session of the United Nations Forum on Forests, a voluntary global financial mechanism/portfolio approach/forest financing framework for all types of forests, aimed at mobilizing significantly increased, new and additional resources from all sources, based on existing and emerging innovative approaches, also taking into account assessments and reviews of current financial mechanisms, to support the implementation of sustainable forest management, the achievement of the global objectives on forests and the implementation of the non-legally binding instrument on all types of forests.

II. Organizational and other matters

A. Tasks of the Open-ended Ad Hoc Expert Group to Develop Proposals for the Development of a Voluntary Global Financial Mechanism/Portfolio Approach/Forest Financing Framework

2. Also in its resolution 2007/40, the Economic and Social Council decided (para. 7), that the Forum should, within existing resources, convene, before its eighth session, the meeting of an Open-ended Ad Hoc Expert Group to Develop Proposals for the Development of a Voluntary Global Financial Mechanism/Portfolio Approach/Forest Financing Framework, and invited the Collaborative Partnership on Forests to assist in the development of those proposals.

B. Venue and duration of the meeting

3. The meeting of the Open-ended Ad Hoc Expert Group to Develop Proposals for the Development of a Voluntary Global Financial Mechanism/Portfolio Approach/Forest Financing Framework was held in Vienna from 10 to 14 November 2008.

C. Attendance and participation

4. The Open-ended Ad Hoc Expert Group was composed of experts designated by the Governments of the States members of the Forum. In addition, representatives of member organizations of the Collaborative Partnership on Forests[1] and major groups were in attendance.

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[1] Center for International Forestry Research (CIFOR), Food and Agriculture Organization of the United Nations (FAO), International Tropical Timber Organization (ITTO), International Union of Forest Research Organizations (IUFRO), United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), International Centre for Research in Agroforestry (ICRAF) ("brand name": World Agroforestry Centre), World Bank and IUCN (International Union for Conservation of Nature); and the secretariats of the Convention on Biological Diversity, the Global Environment Facility, the United Nations Framework Convention on Climate Change, the United Nations Convention to Combat Desertification in Those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa, and the United Nations Forum on Forests.

5. A full list of participants can be found in annex I to the present report.

D. Documentation

6. Documentation prepared for the meeting included the provisional agenda with annotations (E/CN.18/2008/1) and a note by the Secretariat on financing for sustainable forest management: mobilizing financial resources to support the implementation of the non-legally binding instrument on all types of forests and to promote sustainable forest management (E/CN.18/2008/2).

7. The note by the Secretariat included an overview of the non-legally binding instrument on all types of forests and major forest and finance issues; considered the role of the private sector; reviewed existing and recent international financial cooperation; described some emerging programmes; discussed the terms "global financial mechanism", "portfolio approach" and "forest financing framework"; and concluded with issues for consideration.

8. A background document entitled "Financing flows and needs to implement the non-legally binding instrument on all types of forests" was prepared for the Advisory Group on Finance of the Collaborative Partnership on Forests with the support of the Program on Forests (PROFOR) of the World Bank. The Co-Chairs' summary report of the Country-led Initiative on Financing for Sustainable Forest Management in Support of the United Nations Forum on Forests, held in Paramaribo from 8 to 12 September 2008, was presented as a background paper.

9. The complete list of documents submitted to the meeting is contained in annex II to the present report.

E. Welcoming remarks

10. Mr. Thomas Stelzer, Assistant Secretary-General in the Department of Economic and Social Affairs of the United Nations Secretariat, welcomed participants and explained that the United Nations Forum on Forests was entering a new era, following the adoption by the General Assembly, in its resolution 62/98 of 17 December 2007, of the non-legally binding instrument on all types of forests, as contained in the annex to that resolution. Referring to the additional uncertainties arising from the recent global financial problems, he stressed the importance of using the meeting of experts to formulate sound recommendations for consideration by the Forum at its eighth session in April/May 2008, while also noting the potential impact of the recent financial crises.

F. Election of officers

11. The Ad Hoc Expert Group elected Boen M. Purnama (Indonesia), Chair of the Bureau of the eighth session of the Forum, as Chair of the Ad Hoc Expert Group and Abdellah Benmellouk (Morocco), Modesto Fernandez Diaz-Silveira (Cuba), Glen Kile (Australia) and Arvids Ozols (Latvia), members of the Bureau of the eighth session of the Forum, as Vice-Chairs. Jan L. McAlpine was congratulated on her recent appointment as Director of the Forum secretariat.

G. Conduct of the meeting

12. In adopting its provisional agenda, participants agreed that the work would be developed in a plenary setting.

H. Country-led Initiative on Financing for Sustainable Forest Management in Support of the United Nations Forum on Forests

13. Cornelius Pigot, Co-Chair of the Country-led Initiative on Financing for Sustainable Forest Management in Support of the United Nations Forum on Forests, held in Paramaribo from 8 to 12 September 2008, made a presentation on the Country-led Initiative. The objective of this international expert meeting, which was attended by some 227 forest and finance experts, was to identify opportunities to significantly enhance financing for sustainable forest management. The main topics discussed were current and emerging initiatives in financing sustainable forest management, from producer, consumer and community perspectives; financing from forest ecosystem services; and institutional and governance strategies at the national and international levels. Conclusions and recommendations included the urgent need for financing from all sources, with official development assistance (ODA) playing a catalytic role; the need to focus on building an enabling policy, legal and institutional environment at national and subnational levels; and the need for more coherence and streamlining of mechanisms, procedures and processes. There was a recognition that payments for ecosystem services were still evolving; that the climate change-forest nexus could provide a financing boost for forests, but with many complexities to be worked out; and that meaningful stakeholder participation, including indigenous and local communities, and communication were all-important. The importance of the Forum and the Collaborative Partnership on Forests in mobilizing financing for sustainable forest management was also recognized. Experts agreed that this Country-led Initiative had provided a valuable basis for discussions by the Ad hoc Expert Group.

I. Summary of panel discussion on the mapping of the current funding landscape for the non-legally binding instrument on all types of forests

14. The Ad hoc Expert Group held a panel discussion on the mapping of the current funding landscape for the non-legally binding instrument on all types of forests on 10 November.

15. The panel discussion provided a forum within which experts could consider the demand for external financing for sustainable forest management, the supply of financing, and gaps. Markku Simula, Adjunct Professor of Forest Economics at the University of Helsinki, made a presentation based on the background document on financing flows and needs to implement the non-legally binding instrument on all types of forests. Other presentations were made by the following representatives of member organizations of the Collaborative Partnership on Forests: Marco Boscolo (Food and Agriculture Organization of the United Nations (FAO)), Patrick Verkooijen (World Bank), Maria Sanz-Sanchez (secretariat of the United Nations Framework Convention on Climate Change) and Amha bin Buang (International

Tropical Timber Organization (ITTO)). The presentations were followed by an extensive question-and-answer period.

16. Mr. Simula explained that the objectives of the background document had been to provide an overall picture of forest finance in the context of the non-legally binding instrument, focusing on external sources; to review existing, potential and evolving sources and mechanisms of funding, in particular new developments in the climate change regime relating to forest finance; to review needs and potential of forest financing; and to identify thematic areas and geographical gaps in the existing and emerging financing flows to forests. He explained that explicit country demand for forest official development assistance, as expressed in poverty reduction strategies, was relatively weak and that demand was also strongly influenced by the priorities and policies of donors. External financial flows of public money to forests quoted in the background document currently totalled about US$ 1,910 million per year, of which nearly 60 per cent was bilateral and the balance multilateral. The 50 per cent increase in external flows of public money since 2002 was very largely attributable to multilateral funding. Although data were not fully comparable, the study showed that about 95 per cent of bilateral funding had come from nine countries. Nearly 75 per cent of multilateral funding came from the World Bank Group. Funding recipients were also concentrated, as 10 countries received about two thirds of ODA to forests. There are significant funding gaps in respect of financial flows: these include low forest cover countries, some countries with high or medium forest cover, many small and medium-sized countries with large forests and many small island countries. African countries are lagging behind other regions as ODA recipients. There are also thematic gaps in forest funding, including forests outside protected areas, the management of natural tropical forests, restoration of degraded forests and lands, and the reforestation and afforestation of drylands.

17. Mr. Simula also highlighted the critical importance of upfront investment for sustainable forest management which was not adequately covered by existing financial flows. He referred to an estimate[2] indicating that, without taking account of the costs of afforestation or reforestation, about US$ 20 billion per year would be needed to cover the opportunity costs of preventing deforestation or forest degradation and the investment needed to manage existing forests sustainably. Forest measures aimed at effecting climate change mitigation offer significant environmental, social and economic co-benefits to be duly considered in climate change financing schemes. Such schemes should not be focused exclusively on reducing emissions from deforestation in forest-rich countries but should also tap other opportunities for mitigation and adaptation of climate change. Forest financing will require a combination of instruments including grants, loans, credits, and payments for ecosystem services. In addition, he concluded that, at the international level, options included strengthening the existing and emerging sources and mechanisms to fill the geographical and thematic gaps in forest financing; harnessing synergies between international initiatives and organizations; and establishing a new financing mechanism targeted at the implementation of the non-legally binding instrument on all types of forests. National measures could include strengthened explicit demand for ODA for forests; national forest financing strategies; improved country investment climates; and improved revenue collection.

[2] See United Nations Framework Convention on Climate Change, Investment and Financial Flows to Address Climate Change (Bonn, United Nations Framework Convention on Climate Change secretariat, 2007).

18. Mr. Boscolo provided an outline of the Collaborative Partnership on Forests Sourcebook on Funding for Sustainable Forest Management, explaining that it had recently been updated and now included 800 entries in its funding database. He also presented the results of a study investigating links between sources of funding and specific elements of the non-legally binding instrument. While all measures within the instrument are covered to some extent, funding is inadequate and no single fund covers all components. Capacity-building and conservation are the focus of most funding sources. The study had also identified some positive country experiences on innovative funding mechanisms; generally speaking, the countries concerned were those where the challenges were least severe. Funding has been most successful where there was a supportive policy and institutional environment and a good alignment with long-term national priorities. National forest programmes and national forest finance strategies are necessary and the Natural Forest Programme Facility supports their development.

19. Mr. Verkooijen outlined the design process for the World Bank Forest Investment Program, which is part of the Strategic Climate Fund, developed in response to the Bali Action Plan.[3] The World Bank has a mandate to develop the Forest Investment Program with a view to mobilizing increased funds for reduction of carbon emissions from deforestation and degradation and promoting sustainable management of forests to protect carbon stocks. It is distinct from the Forest Carbon Partnership Facility, filling the gap between the funding provided by the Facility's Readiness Fund, and the Carbon Fund. The Forest Investment Plan is likely to be piloted in a number of countries; other key features reflect the need to recognize the importance of co-benefits, such as biodiversity, and to consult local and indigenous communities and other stakeholders through the process of design and implementation. The intention is to complete the Forest Investment Program design process by April 2009.

20. Ms. Sanz-Sanchez explained that, following the thirteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change,[4] held in Bali from 3 to 15 December 2007, work aimed at reducing emissions from deforestation and degradation had been taken forward at two levels. Detailed discussions were continuing on methodological issues, including monitoring and the setting of reference emission baselines. In the meantime, in preparatory meetings for the fifteenth session of the Conference of the Parties, to be held in Copenhagen in December 2009, it had been recognized that there was sufficient confidence in methodological knowledge to allow policy discussions to progress; the aim was to negotiate a financial mechanism that would be fair and cost-effective, flexible, sustainable and predictable. Demonstration activities were seen as important and a website had been established to share information.

21. Mr. Amha outlined the role and functioning of existing International Tropical Timber Organization (ITTO) funding mechanisms, namely, the Special Account and the Bali Partnership Fund. To facilitate increased and more predictable funding, the Special Account would be revamped under the International Tropical Timber Agreement, 2006 (TD/TIMBER.3/12), which had provided for the establishment of the Thematic Programmes Sub-Account for unearmarked contributions and the Project Sub-Account for earmarked contributions for the financing of International

[3] FCCC/CP/2007/6/Add.1, decision 1/CP.13.

[4] United Nations, *Treaty Series*, vol. 1771, No. 30822.

Tropical Timber Organization pre-projects, projects and activities. In preparation for the entry into force of the International Tropical Timber Agreement, 2006, the International Tropical Timber Council had decided, at its forty-fourth session, held in Yokohama, Japan, from 3 to 8 November 2008, inter alia, on the establishment of the Thematic Programmes Sub-Account, the approval of five thematic programme profiles and the implementation of the five thematic programmes on a pilot basis. The integration of the programmatic approach into the work of the International Tropical Timber Organization would enhance its ability to respond more effectively to tropical forests and timber-related needs in achieving sustainable management and development.

J. Statement by the Chair of the Collaborative Partnership on Forests

22. On 12 November, Jan Heino, Chair of the Collaborative Partnership on Forests, made a statement at the meeting referring to the background work that had been undertaken by the Advisory Group on Finance and confirming that the Partnership would welcome further opportunities to assist the Forum in its work.

K. Proposal for a major group initiative

23. On behalf of major groups, Jeannette D. Gurung, Director, Women Organizing for Change in Agriculture and Natural Resource Management made a proposal for a major group initiative. She explained that major group representatives had very actively engaged with the Forum for many years, and focused on the engagement of local communities, forest owners, non-governmental organizations, indigenous peoples and women in decision-making on and implementation of sustainable forest management. She added that, at a time when financing mechanisms and frameworks were being discussed, it was critical that members of the Forum not forget the principles set out in the non-legally binding instrument on all types of forests that promoted and supported such effective engagement. Thus, financing for sustainable forest management could not be the responsibility solely of Governments if global objective 2 was to be met. Paragraph 6 (h) of the instrument stated, inter alia, that the creation of an enabling environment was necessary to encourage investment by and involvement of local and indigenous communities, other forest users and forest owners and other relevant stakeholders in sustainable forest management through a framework of policies, incentives and regulations. Ms. Gurung explained that the issue of how to most effectively achieve this required further consultation and elaboration within a multi-stakeholder forum in order that, in this regard, ideas might be gathered and best practices shared. She announced that for this purpose the major groups wished to organize an intersessional meeting (major groups initiative) in late 2009. The knowledge acquired on the roles of civil society actors and the means of their engagement with the Forum and the instrument would be fed into the ninth session of the Forum. In addition, this initiative would provide approaches to moving forward in respect of the consideration of forests at the sessions of the Commission on Sustainable Development in 2012 and 2013, the International Year of Forests in 2011, and coordination with the secretariats of the United Nations Framework Convention on Climate Change, the Convention on Biological

Diversity[5] and the United Nations Convention to Combat Desertification in Those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa.[6]

III. Matters for consideration by the United Nations Forum on Forests

24. The present section contains a summary of discussions on developing proposals for the development of a voluntary global financial mechanism/portfolio approach/forest financing framework that emerged from the meeting of the Ad hoc Expert Group.

A. Introduction

Commitment to sustainable forest management

25. Experts stressed the urgent need for effective action to implement sustainable management of all types of forests, and to achieve the shared global objectives on forests reaffirmed in the non-legally binding instrument on all types of forests set out directly below:

Global objective 1

Reverse the loss of forest cover worldwide through sustainable forest management, including protection, restoration, afforestation and reforestation, and increase efforts to prevent forest degradation

Global objective 2

Enhance forest-based economic, social and environmental benefits, including by improving the livelihoods of forest-dependent people

Global objective 3

Increase significantly the area of protected forests worldwide and other areas of sustainably managed forests, as well as the proportion of forest products from sustainably managed forests

Global objective 4

Reverse the decline in official development assistance for sustainable forest management and mobilize significantly increased, new and additional financial resources from all sources for the implementation of sustainable forest management

26. Experts noted that "forest" is a broader term than "forestry" and that action should include, inter alia, forest conservation. Actions to achieve the shared global objectives on forests will extend beyond the traditional "forestry" sector. Sustainable forest management, as a dynamic and evolving concept, aims to maintain and enhance the economic, social and environmental value of all types of forests, for the benefit of present and future generations.

[5] Ibid., vol. 1760, No. 30619.
[6] Ibid., vol. 1954, No. 33480.

Discussion at the meeting of the Ad hoc Expert Group

27. There was a rich discussion during the meeting and there were many areas where views of experts overlapped, although some issues still require further consideration. A number of experts suggested that the purpose and content of a voluntary global financial mechanism/portfolio approach/forest financing framework should be agreed before detailed modalities were considered.

Rationale for funding sustainable forest management

28. In many situations, sustainable forest management requires external financing owing to the fact that, in general, sustainable management requires higher investment and/or operational costs and because there may be opportunity costs through loss of revenue from forest products. Sustainable forest management can be self-financing, but in general this is the case only when those who benefit from goods or services pay the appropriate price (or compensation) for the benefits they receive. Such benefits may be national or local (such as watershed management, prevention of desertification or recreation provision). Other benefits may include public goods or services (such as conservation of biodiversity or reduction in carbon dioxide emissions). In addition, forests can contribute to poverty eradication, which may also require financial support.

Information on existing and emerging sources of funding

29. Existing and emerging sources of finance for sustainable forest management include private sector investment, domestic public sector, bilateral and multilateral ODA, payments for ecosystem services and non-profit and philanthropic contributions. The Collaborative Partnership on Forests Sourcebook on Funding for Sustainable Forest Management now includes 800 entries in its funding database. Although there is no comprehensive information on the aggregate value of the flow of private funds, it has been determined that, in the last few years, there has been about US$ 500 million per year of foreign direct investment (FDI) in forest industries. A recent estimate is that the external financial flow of public money to forests is about US$ 1.9 billion per year. At present, 10 countries receive about two thirds of ODA to forests. There has been a 50 per cent increase in external flows of public money since 2002; this is very largely attributable to multilateral funding, nearly 75 per cent of which comes from the World Bank Group. Although data are not fully comparable, about 95 per cent of bilateral funding comes from nine countries.

30. ODA can play a catalytic role in mobilizing a broader spectrum of financing for sustainable forest management. Many experts highlighted the role of ODA in capacity-building and helping to create an enabling environment for attracting finance for sustainable forest management. There is also a wide range of existing and emerging mechanisms and sources that provide funding to forests, often with specific targets related to, for example, biodiversity conservation and climate change. Sources of finance include the Global Environment Facility, the Clean Development Mechanism (which has potential, although only one project has been approved to date), the private sector and philanthropic donors.

31. Several of the environmental services that are provided by forests can generate income for sustainable forest management and the number of payment schemes is increasing. However, there is no comprehensive information on the value of these

payments. Nor is there comprehensive information on the financial contribution of philanthropic donorship to the cost of sustainable forest management.

B. Financing sustainable forest management: challenges and opportunities

Drivers of deforestation and degradation

32. Continuing high rates of deforestation and forest degradation are a cause for serious concern and pose a significant challenge in the global effort to make progress towards sustainable forest management. Total deforestation during 2000-2005 was 13 million hectares per year. Taking into account increases in planted forests and natural expansion of forests, the net loss of forest area is currently about 7.3 million hectares per year. Virtually all deforestation occurs in tropical forests in developing countries. This has a serious adverse impact on economies, the environment, including biological diversity, and the livelihoods of at least 1 billion people. In addition, in 2004, total annual global anthropogenic greenhouse gas emissions reached 49 billion tons of carbon dioxide equivalents, with the forest sector having contributed 17.4 per cent of this, or 8.5 billion tons, mostly due to deforestation and degradation.[7] The underlying causes of deforestation and forest degradation are complex and varied, and many of them are cross-sectoral, determined by pressures that originate outside the forest sector. In addition to unsustainable exploitation of forest products, these drivers include the conversion of forest land for agriculture, for mining and for development of human settlements and infrastructure.

Funding gaps

33. Experts noted that there were significant funding gaps in financial flows in support of sustainable forest management. Experts also recognized the additional challenges presented by the recent downturn in the world economy. Upfront investment for sustainable forest management, which is not adequately covered by existing financial flows, is of critical importance. According to one estimate, the opportunity costs of preventing deforestation or forest degradation, together with the investment needed to manage existing forests sustainably, will amount to about US$ 20 billion per year. The investment costs of afforestation and reforestation are not included in this estimate.

34. As already noted, in geographical terms, the funding gaps encompass low forest cover countries, some countries with high or medium forest cover, many small or medium-sized countries with large forests, and small island developing States. Africa is lagging behind other regions. Other major gaps in forest funding encompass forests outside protected areas (especially the management of natural tropical forests), restoration of degraded forests and lands, and the reforestation and afforestation of drylands. This means, for example, that large areas of natural tropical forest receive little or no funding. Experts also noted that small island

[7] See Intergovernmental Panel on Climate Change, Climate change 2007: synthesis report (http://www.ipcc.ch/ipccreports/ar4-syr.htm), final part of the Intergovernmental Panel on Climate Change Fourth Assessment Report, as cited in E/CN.18/2008/2, para. 53.

developing States require careful consideration because of their size, vulnerability and fragility and the role of their forest ecosystems.

35. Experts noted that another factor affecting forest ODA was the failure to establish effective links between national development priorities (such as poverty reduction) and forests and to recognize the role of sustainable forest management in maintaining and enhancing global and national public goods. For example, explicit country demand for forest ODA, as expressed in poverty reduction strategies, is relatively weak.

Payments for ecosystem services

36. Experts noted that some of the environmental and social services provided by forests, such as biodiversity conservation, carbon sequestration, water regulation and recreation and tourism, can generate income for sustainable forest management. There are good examples of schemes to compensate forest environmental services that are operating successfully in some countries; and schemes related to climate change mitigation have the potential to mobilize additional funding to forests. However, there is uncertainty about how, where and to what extent such schemes represent a real and significant opportunity for mobilizing additional financing for sustainable forest management. It is also necessary to give careful consideration to the distribution of revenue derived from such payments so that local communities and indigenous peoples can benefit.

37. There was considerable discussion of the potential funding of sustainable forest management through mechanisms that are being established, and are currently under consideration, with regard to reducing emissions from deforestation and forest degradation in developing countries. For example, the World Bank has established the Forest Carbon Partnership Facility, which will test incentive payments in 25 pilot developing countries, and is also in the process of establishing a "forest investment programme", aimed at addressing the identified gaps in sustainable forest management financing in the context of reducing emissions from deforestation and forest degradation. Experts highlighted the importance of ensuring that these mechanisms, while achieving their primary aim of mitigating climate change, were also effective in delivering co-benefits through recognition of the holistic concept of sustainable forest management which incorporates maintenance and enhancement of climate benefits from forests. Some experts also stated that considerable uncertainties remained with regard to reducing emissions from deforestation and forest degradation, in terms of both technical factors and the development of a market that would generate revenue for sustainable forest management.

Role of Governments and non-governmental actors

38. External funding to recipient countries is being channelled through Governments and non-governmental actors. Some experts maintained that non-governmental actors should be engaged in both the design and the implementation of funding instruments and programmes. A number of experts noted the increasing use of non-governmental actors as a funding channel. While this can be effective, it can also present a challenge in terms of ensuring effective coordination of actions within a country.

Fragmentation and synergies

39. Many experts highlighted the challenges posed by the fragmentation of funding sources, in particular in cases where this gave rise to duplication, and unproductive competition between funding sources increased reporting burdens. On the other hand, it was recognized that a multiplicity of funding sources could offer advantages by providing complementary options for fund applicants, especially as many financing sources had specific, targeted objectives. Experts suggested that improved coordination would help overcome problems of fragmentation.

40. It is important to develop stronger synergies between different sources of funding so as to prevent duplication and bridge gaps. At the same time, there is a need to ensure flexibility and inclusiveness based on recognition of the fact that "one size does not fit all"; owing to diversity of national and subnational situations, a tailored approach may be necessary in the case, for example, of small island developing States, low forest cover countries and countries with high forest cover with low rates of deforestation.

Improving the effectiveness of ODA

41. Experts, referring to the Paris Declaration on Aid Effectiveness, noted that its principles of harmonization and coordination had yet to be fully implemented in the provision of ODA to forests, although national forest programmes and associated financial strategies were a positive example of harmonization and alignment. In recent years, there has been a significant shift of emphasis, with recipient countries increasingly making decisions about the allocation of ODA among sectors and programmes. As a result, forest budgets, in competition as they are with other national priorities, need to be justified through country-level domestic planning processes in recipient countries. If countries do not treat sustainable forest management as a mainstream priority in their development plans and ODA strategies, sustainable forest management will continue to receive lower priority.

42. As many measures required for sustainable forest management need long-term implementation programmes, predictability of funding is necessary to help ensure continuity of action. The need to assess performance and delivery of outcomes was also highlighted.

43. Experts stressed the importance of transparency in ensuring that all stakeholders had equal access to information.

Improving the efficiency of ODA

44. Many experts highlighted the fact that transaction costs associated with ODA programmes could be disproportionately high. In addition, as recipient countries often have to devote significant effort to meeting the different reporting requirements of financing organizations and donor countries, this reduces the capacity available for implementation. Increasingly, ODA and other funding are performance- or results-based; therefore, monitoring of results constitutes a key tool for decision-making.

Conditionality of ODA

45. Conditionality requirements can be a significant barrier to access to funding. On the other hand, funding providers are expected to set conditions to ensure that the funds are used in accordance with the objectives of the supported programmes. This was recognized as an issue that must be treated sensitively.

C. National-level requirements and measures

Diversity of national situations

46. Many experts highlighted the diversity of national situations and variation within countries. Experts noted that the non-legally binding instrument on all types of forests provided a comprehensive approach to addressing financing of sustainable forest management. Funding for sustainable forest management should take into account the national measures set out in paragraph 6 of the instrument, and reflect the understanding that the instrument applies to all types of forests. Differences include the level of forest cover, the types of forests, and the benefits generated through sustainable forest management. Furthermore, experts highlighted the particular challenges facing small island developing States and the need to ensure that countries with high forest cover with low rates of deforestation benefited from schemes to reduce emissions from deforestation and forest degradation.

National financing strategies

47. Experts stressed the importance of national financing strategies, based on national forest programmes or other similar frameworks, as a tool for identifying funding requirements and gaps in order to mobilize financing from existing and potential sources, both domestic and external, public and private. Where appropriate, financial strategies should also consider opportunities for increased revenue collection, taxation and payments for environment services, as well as ODA and philanthropic sources of funding. Financial sustainability is an important goal, although countries may need to move through phases, including upfront capacity-building, to achieve this.

Coordination and coherence with other policies

48. Availability of public funding, in particular, is generally dependent upon demonstrating that sustainable forest management can bring benefits that will help address national priorities, such as poverty reduction, sustainable development, conservation of biodiversity and watershed management. Demonstrating such linkages requires a coordinated approach to policy development. There also needs to be cross-sectoral policy coherence, so that, for example, agricultural policies do not have an adverse impact on sustainable forest management.

Stakeholder participation and engagement

49. Active stakeholder participation and engagement in all stages of the development and implementation of national financing strategies constitute a critical requirement. Financing of sustainable forest management should take into account the needs, rights and contributions of all stakeholders, including indigenous and other forest-dependent peoples. Effective participation and engagement, particularly

at the local level, can also help stakeholders understand the challenges and threats facing forests.

Capacity-building

50. Many experts highlighted the importance of capacity-building as a prerequisite for effective action and sustainability. The needs include capacity to understand and make use of the various existing and emerging international instruments and initiatives; to develop sound projects; to coordinate activities based on different funding programmes; and to ensure effectiveness in the use of funds. Capacity-building should also be required to support effective stakeholder engagement, including indigenous and other forest-dependent peoples.

51. A number of experts highlighted the value of the National Forest Programme Facility in this respect, and the potential for strengthening it.

Enabling conditions

52. Development of an appropriate policy and legal framework (including secure land tenure as a precondition for investment in sustainable forest management), and effective governance, institutions and law enforcement, were identified as crucial enabling conditions for successfully attracting investment in sustainable forest management (including potential markets in relation to carbon sequestration). It is also important to clarify and respect the rights of local communities, indigenous peoples and women.

Resource monitoring and assessment

53. Resource assessment and monitoring are required as a basis for developing national policies, programmes and strategies and in order to provide verifiable assessments of the effectiveness of implementation. This will also be important in relation to schemes for reducing emissions from deforestation and forest degradation.

D. International-level requirements and measures

54. Experts stressed the diversity of national and subnational situations, including, for example, the particular challenges facing small island developing States, low forest cover countries, countries with high or medium forest cover, small and medium-sized countries with large forests, countries with high forest cover with low rates of deforestation and middle-income countries. Examples of such challenges include natural disasters, disease, protection of watersheds, conservation of biodiversity, and the provision of sustainable livelihoods for local communities to enhance the rural economy and reduce poverty. It is important to recognize that the non-legally binding instrument applies to all types of forests.

55. Experts also highlighted the important differences between developing and developed countries and, in particular, the need for developing countries to have access to external funding if they are to respond to the challenges of sustainable forest management. In addition, it was suggested that consideration also be given to the situation of middle-income countries.

56. Stronger coordination and better complementarity between funding mechanisms would help to provide greater clarity and reduce the potential for duplication and gaps. In order to help achieve this in relation to multilateral funding, countries should ideally agree on their own priorities so that they can deliver consistent messages to different governing bodies. It was suggested that the Forum should send a strong message to the secretariat of the United Nations Framework Convention on Climate Change on the need to ensure that schemes for reducing emissions from deforestation and forest degradation take full account of the holistic nature of sustainable forest management.

57. Examples were given of effective coordination at the regional level, for example, through the establishment of regional and subregional funds. In addition, it was noted that national forest funds could be an effective mechanism.

58. Funding priorities should be determined at country level. Some experts from recipient countries considered that donors had exerted too strong an influence on this process. Experts from donor countries, on the other hand, stated that they needed to follow the agreed criteria and priorities of particular funding programmes, such as combating climate change (including through carbon sequestration), poverty reduction and conservation. In this context, experts highlighted the importance of the principles set out in the Paris Declaration on Aid Effectiveness.

59. It is also important to ensure that the availability of sources of finance, including the private sector and market opportunities, is visible and accessible. Many experts referred, in this respect, to the importance of good communication.

E. Proposals for the development of a voluntary global financial mechanism/portfolio approach/forest financing framework

60. Experts considered proposals for the development of a voluntary global financial mechanism/portfolio approach/forest financing framework. Many experts expressed the view that these three phrases or terms were not mutually exclusive and that, in fact, they described different aspects of what might be a desirable future arrangement for financing sustainable forest management and the achievement of the shared global objectives on forests. It was generally accepted that the portfolio approach (described as the approach through which the large variety of financing needs for sustainable forest management are met from a variety of sources) already existed, provided many benefits and should continue to be utilized in the future. Many experts recognized that this also meant that a well-articulated framework should exist to ensure maximum synergy and coherence among the many existing programmes. Such a framework should be able to coordinate existing portfolios and coordinate any new funds that might be created.

61. Experts acknowledged that the current state of affairs regarding finance for forest programmes in developing countries was not satisfactory and that improvements were essential. There were different views on how to achieve these and what terminology should be used in that regard. However, the requirements and measures identified in section III.C and III.D above should provide a basis for designing steps for improvement.

62. Many experts reiterated their support for a distinct fund dedicated or earmarked for sustainable forest management and the global objectives. Those

experts stressed that this was necessary to meet the challenge of implementing the non-legally binding instrument on all types of forests. Such a fund could be based on voluntary contributions, with governance arrangements open to all geographical regions. It was pointed out that other international agreements on biodiversity, climate change and desertification all had individual dedicated funding programmes, and that these had long remained difficult for some countries to access for the purpose of achieving certain objectives of sustainable forest management, having entailed many months of efforts involving complex procedures which could be simplified or streamlined. It was also noted that such a fund might be able to help solve the problem arising from the strong competition on the national level among priorities requiring additional funding. This built on earlier discussions of national-level conditions and gaps in funding. However, a number of experts questioned whether this would be the most effective way to mobilize increased resources and whether this would not in fact exacerbate problems of fragmentation and lack of coordination. It was also noted that a more detailed description of some of the basic criteria for such a fund would be needed for the purpose of elaborating the proposal for further consideration.

63. Several experts suggested measures to improve the efficiency and effectiveness of existing sources and mechanisms through a new financing framework or mechanism. Others cautioned that the existing gaps in forest finance could not be bridged through these measures alone; promising and innovative financing mechanisms and opportunities might be explored respecting national situations and priorities.

64. Global objective 4 on forests included the need for new and additional financial resources for the implementation of sustainable forest management. It was widely accepted that, in developing countries, external funding was needed to supplement domestic sources. However, experts noted that, while new sources of financing were emerging, significant gaps did remain. A number of experts expressed support for a facilitative mechanism that would help mobilize existing and emerging funds, and facilitate access to other sources of finance such as venture capital funds, loans, credit and risk guarantee-type funding in order to help achieve national and subnational priorities. It could also draw on the potential of the Forum and the Collaborative Partnership on Forests to help facilitate action. Some experts also highlighted the importance of giving priority to helping Governments access these sources of finance. The aim would be to facilitate expedited access to funding for developing countries and focus on implementation of the instrument. Such a facilitative mechanism would work with all the present and future agreements and funding sources that are involved with forests. It could have comprehensive coverage, recognizing stakeholder needs and potentially applying to all types of forests, a full range of country situations and different forest uses.

65. This facilitative mechanism might also use effective communication regarding the benefits of sustainable forest management and the non-legally binding instrument on all types of forests to help further increase the availability of financial resources from all sources. In addition, the mechanism would address the need to improve the coordination and coherence of existing and emerging schemes, and improve availability of information on those schemes. A matrix tool could be useful in identifying gaps and priorities.

66. Some experts argued strongly that a facilitative mechanism that carried out these types of actions would offer an inadequate response to the challenges facing forests and that a specific fund was required.

67. A number of experts suggested that it would be worthwhile to facilitate clearer and easier access to the various funds available for different aspects of sustainable forest management. Many experts expressed the view that the informational service provided by the Collaborative Partnership on Forests Sourcebook on Funding for Sustainable Forest Management was very useful and should be regularly updated. It was also suggested that additional resources could be provided so that the Sourcebook could be more proactive, including contracting expertise to provide assistance to those enquiring about different types of finance, including market mechanisms, and how each worked. Some experts also suggested that there could be a "brokerage" service, which would actively seek to introduce potential sources of finance to recipients. Other complementary measures could include strengthening the work of the National Forest Programme Facility on national forest financing strategies, including through increased funding.

68. Experts discussed the level of financing that was required. This would include initial upfront investment (for example, in planning and initial capacity-building), mainstreamed upfront investment (for example, in creating the enabling conditions for investment) and sustained financing (which would include revenue from forest goods and services and payments for ecosystem services). Reference was made to the estimate of US$ 20 billion per year quoted in paragraph 17 above. Some experts said that ODA funding should be focused on the element of upfront investment and a number of experts referred to studies that had estimated the costs of capacity-building. One study had found that capacity-building in 40 countries would cost over US$ 4 billion during the next five years.[8] Experts also recalled the work undertaken by the International Tropical Timber Organization and the Advisory Group on Finance, which had suggested that the costs of upfront investment could be about US$ 2 billion-US$ 4 billion per year. However, some experts noted that further information on the costs of achieving sustainable forest management, current availability of types of financing, the location of the major gaps, and the economic and data assumptions underlying this would be useful.

69. Experts also discussed how to take matters forward. Some suggested that a gradual or step-wise approach was required, with the possibility of pilot projects. Other experts expressed concern that this approach could lead to delay in taking the urgent action that was needed. It was recommended that members of the Collaborative Partnership on Forests, in particular of the Advisory Group on Finance, should continue to develop these proposals.

70. Experts recognized that more work was needed to allow the development of proposals for a voluntary global financial mechanism/portfolio approach/forest financing framework in accordance with Economic and Social Council resolution 2007/40. It was recommended that members of the Collaborative Partnership on Forests, in particular members of the Advisory Group on Finance, should continue supporting the development of the proposals. There was a suggestion that there should be an expert working group meeting.

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[8] See *Climate Change: Financing Global Forests: The Eliasch Review* (London, 2008), available from http://www.occ.gov.uk/activities/eliasch/Full_report_eliasch_review(1).pdf.

71. It was recommended that member States provide written contributions to support further elaboration of the proposals. The secretariat will prepare a short questionnaire/template to help structure these contributions and make it available in all the official languages of the United Nations. Countries and major groups will have one month in which to respond, after which a synthesis report will be prepared. In addition, a compilation of all contributions in their original form will be made available.

72. It was also recommended that further opportunities should be sought for conducting one or more additional meetings on the sidelines of other events. The Second Design Meeting for the Forest Investment Program (February 2009) and the nin[illegible]th session of the FAO Committee on Forestry (16-20 March 2009), in particular, were identified in this context. The synthesis paper will be discussed at these informal meetings.

73. The meeting was informed of the holding of a coordination meeting for Africa to support the preparations for the eighth session of the United Nations Forum on Forests. It was emphasized that there were largely different conditions in the continent and needs and priorities of the different subregions, including those of the low forest cover countries, should also be recognized.

Annex I

List of participants

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Comoros

Abdallah Ahmed Soilihi

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Tarita Holm

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Erick Rodriguez

Jorge Garcia

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Ingeborg Bromee

Bjorn Merkell

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Jurgen Blaser

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Venezuela (Bolivarian Republic of)

Isabel Di Carlo

Ileana Villalobos

Rodrigo Yanez

Yemen

Alaeldin Mohammed Abdullah Al-Sharjabi

* * *

European Commission

John Bazill

Intergovernmental organizations and Forum secretariat/recognized regional organizations and processes

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Linda Mossop-Rousseau

Anna Chileshe-Masinja

African Forest Research Network

Iba Kone

Amazon Cooperation Treaty Organization

Carlos Aragon

Asia-Pacific Network for Sustainable Forest Management and Rehabilitation

Xiao Jun

International Tropical Timber Organization (ITTO)[a]

Amha bin Buang

Ministerial Conference on the Protection of Forests in Europe

Malgorzata Buszko-Briggs

Treaty body secretariats

Secretariat of the United Nations Convention to Combat Desertification[a]

Jones Kamugisha-Ruhombe

Secretariat of the United Nations Framework Convention on Climate Change[a]

Maria Sanz-Sanchez

* * *

Food and Agriculture Organization of the United Nations (FAO)[a]

Jan Heino

Marco Boscolo

World Bank[a]

Patrick Verkooijen

Major groups

Confederation of European Forest Owners

Bjorn Jorgen Nilsson

[a] Member of the Collaborative Partnership on Forests.

Global Forest Coalition

Andrey Laletin

International Alliance of Indigenous and Tribal Peoples of the Tropical Forests

Hubertus Samangun

International Union of Forest Research Organizations[a]

Alexander Buck

Peter Mayer

Unión de Selvicultores del Sur de Europa (Union of Foresters of Southern Europe)

Lilina Fernandez

Women Organizing for Change in Agriculture and Natural Resource Management

Jeannette D. Gurung

Annex II

List of documents

Title or description	*Document symbol*
Provisional agenda and annotations	(E/CN.18/2008/1)
Note by the Secretariat on financing for sustainable forest management: mobilizing financial resources to support the implementation of the non-legally binding instrument on all types of forests and to promote sustainable forest management	(E/CN.18/2008/2)
Background document entitled "Financing flows and needs to implement the non-legally binding instrument on all types of forests", a study prepared for the Advisory Group on Finance of the Collaborative Partnership on Forests with the support of the Program on Forests (PROFOR) of the World Bank	
Background paper containing the Co-Chairs' summary report of the Paramaribo Dialogue: a Country-led Initiative on Financing for Sustainable Forest Management in Support of the United Nations Forum on Forests, Paramaribo, 8-12 September 2008	